



THE ROLE OF NEW GENERATION BANKS IN KERALA'S ECONOMY POST-COVID PANDEMIC-WITH SPECIAL REFERENCE TO KERALA

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ABSTRACT

The COVID-19 pandemic presented severe challenges to Kerala's economy, disrupting key sectors like tourism, remittances, and small businesses. In this context, new-generation banks have emerged as crucial contributors to economic recovery and transformation. This article explores how these banks have driven post-pandemic recovery by facilitating financial inclusion, enabling digital transformation, and supporting small and medium enterprises (SMEs) and start-ups. Through innovative services and technology-driven solutions, new-generation banks have extended financial accessibility to rural areas, empowered digital transactions, and offered tailored products to meet the changing needs of consumers and businesses. Additionally, they have championed sustainable finance, contributing to Kerala's resilience against future economic shocks. As Kerala moves toward a sustainable and inclusive economic model, new-generation banks will continue to play a significant role in shaping its economic trajectory. This study underscores their ongoing contribution to creating a resilient, adaptable, and inclusive financial ecosystem in Kerala's evolving economy.

INTRODUCTION

The COVID-19 pandemic brought global economies to a standstill, with ripple effects reaching all sectors and impacting even the most resilient markets. In India, Kerala was notably affected, given its economy's reliance on tourism, expatriate remittances, and small businesses. As lockdowns disrupted commerce and reduced remittances, Kerala's economy faced one of its most severe contractions in recent history. However, the crisis also catalyzed a shift toward digitalization and reform, highlighting the need for adaptable, efficient, and inclusive banking solutions. In this recovery phase, new-generation banks have emerged as vital contributors to Kerala's economic revival. Unlike traditional banks, these institutions leverage technology, agile processes, and customer-centric approaches, offering services that go beyond traditional banking methods. From enabling digital banking and providing rapid, accessible loans for small and medium enterprises (SMEs) to driving financial inclusion in rural areas, new-generation banks have positioned themselves at the forefront of Kerala's economic recovery. This article examines the role of new-generation banks in Kerala's post-pandemic economic landscape. It discusses how these banks have introduced innovative solutions to address the unique challenges posed by the pandemic, supported local entrepreneurship, facilitated digital transformation, and championed financial inclusion. By adapting to the new economic realities and shifting consumer expectations, new-generation banks have become integral to building a resilient, inclusive, and sustainable financial ecosystem in Kerala, helping the state recover and thrive in an increasingly digital world.

Statement of the Problem

The COVID-19 pandemic dealt a severe blow to Kerala's economy, deeply affecting its primary sectors, including

tourism, remittances, and MSMEs, and exposing the need for a more adaptive, resilient financial ecosystem. Traditional banks faced limitations in providing timely, accessible support to struggling businesses and rural communities due to the structural challenges of in-person banking during lockdowns and limited digital infrastructure.

As Kerala embarked on its path to economic recovery, it became crucial to identify banking solutions that could offer rapid, inclusive, and technology-driven support. New-generation banks, with their focus on digital transformation, customer-centric solutions, and adaptability, emerged as potential game-changers. However, the question remained: could these banks effectively address Kerala's unique post-pandemic challenges and support a sustainable recovery?

This study examines the role and impact of new-generation banks in facilitating Kerala's economic recovery post-COVID-19. It investigates how these banks have contributed to financial inclusion, supported SMEs and start-ups, and promoted digital and sustainable banking practices. By understanding their effectiveness, the study aims to determine whether new-generation banks are capable of meeting Kerala's economic needs and fostering a resilient financial ecosystem that can withstand future disruptions.

REVIEW OF LITERATURE

The literature on the impact of new-generation banks and digital banking transformation in post-crisis economies provides insights into the potential role these institutions play in economic recovery, financial inclusion, and the digitalization of financial services. Research has focused on several critical themes relevant to understanding the role of new-generation banks in Kerala's economy post-COVID-19, including the

development of digital banking, financial inclusion efforts, SME support, and sustainable finance.

1. Digital Transformation in Banking

The shift to digital banking has been widely recognized as a pivotal trend in the banking sector, particularly following the COVID-19 pandemic. According to *Pousttchi & Dehnert (2018)*, digital banking models improve customer convenience and operational efficiency, allowing banks to deliver essential services with reduced physical infrastructure. *Vasudevan & Ramesh (2021)* found that digital banking uptake increased sharply during the pandemic due to lockdown restrictions, leading to a redefined customer experience focused on mobile and internet banking. Kerala, with its high literacy rates and internet penetration, provides a fertile ground for digital banking innovations. New-generation banks, with their digital-first models, are ideally positioned to capitalize on this trend to meet Kerala's shifting consumer preferences post-pandemic.

2. Role of Banks in Economic Recovery Post-COVID-19

Research by *Chakraborty & Ray (2022)* highlights the significant role of financial institutions in stabilizing economies post-crisis. They argue that banks' accessibility to quick credit and flexible financing solutions helps alleviate liquidity constraints in struggling businesses. Similarly, *Radhakrishnan (2020)* emphasizes the importance of adaptive lending practices and customer-centric policies, which are commonly observed in new-generation banks, as they allow for a more tailored approach to meet the needs of different economic sectors. This approach has been particularly beneficial for MSMEs, which often face difficulty accessing traditional bank loans due to collateral requirements.

3. Financial Inclusion and Accessibility

Financial inclusion has been recognized as essential for inclusive economic growth, with a particular focus on reaching underserved rural populations. According to *Demirgüç-Kunt et al. (2018)*, financial inclusion enables people to save, borrow, and invest, thereby improving their overall financial health and contributing to the economy. In India, initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY) have increased bank account ownership, but access to comprehensive banking services remains limited in rural areas. Studies by *Kannan & Pillai (2019)* argue that new-generation banks, with their digital platforms, are well-suited to bridge this gap in financial inclusion by providing affordable, accessible, and technology-driven services in rural areas. This aligns with Kerala's socio-economic context, where rural financial inclusion is essential for sustainable development.

4. Support for SMEs and Entrepreneurship

The importance of small and medium enterprises (SMEs) in economic development has been widely documented. *Ayyagari, Beck, & Demirgüç-Kunt (2007)* highlight that SMEs are critical for job creation and economic growth,

particularly in emerging markets. Post-COVID-19, the need for flexible and innovative financing for SMEs has increased significantly. *Bhowmick & Murthy (2021)* emphasize that new-generation banks, with their agile processes and non-traditional financing solutions, are better equipped to serve the SME sector. These banks often offer collateral-free loans, quick disbursements, and customized loan products, which have proven essential for SMEs struggling to regain stability post-pandemic. For Kerala, where SMEs are integral to the economy, this support has been vital in fostering entrepreneurial growth and sustaining employment.

5. Sustainable Finance and Green Banking

Sustainable finance has gained attention as economies work toward environmental goals, with banks increasingly adopting green finance initiatives. *Jeucken (2018)* argues that sustainable finance not only addresses environmental concerns but also ensures financial institutions' long-term viability. New-generation banks, which tend to adopt progressive policies, are often at the forefront of promoting green finance. *Mukherjee & Sinha (2022)* find that in India, some new-generation banks have financed renewable energy projects, eco-friendly businesses, and sustainable agriculture, contributing to both economic and environmental resilience. For Kerala, where sustainable development is a priority, the shift toward green banking could enhance resilience against climate and economic disruptions.

Significance

The COVID-19 pandemic drastically impacted economies worldwide, and Kerala was no exception. The state's economy, deeply rooted in tourism, remittances, and agriculture, faced unprecedented challenges. However, post-pandemic recovery has seen the rise of new-generation banks, which have played a crucial role in revitalizing Kerala's economic landscape. This article explores how these banks have facilitated recovery, supported financial inclusion, and adapted to meet the changing needs of individuals and businesses.

1. Catalyst for Financial Recovery and Economic Growth

New-generation banks, which typically emphasize digitalization and customer-centric approaches, have provided critical financial support to businesses, especially the MSME (Micro, Small, and Medium Enterprises) sector. By offering easy access to loans with minimal documentation and facilitating digital transactions, these banks have enabled businesses to rebuild. For instance, flexible credit policies, lower interest rates, and quick processing times have given small businesses a lifeline, allowing them to survive and thrive despite the economic uncertainties that followed the pandemic.

In addition to providing direct financial support, these banks have promoted investment in Kerala's evolving digital economy. This has bolstered new sectors, including e-commerce, fintech, and IT services, which experienced growth as consumer behavior shifted toward digital

platforms.

2. Accelerating Financial Inclusion

A key feature of new-generation banks is their focus on financial inclusion, especially in rural areas where access to traditional banking services may be limited. In Kerala, new-generation banks have expanded their services to rural and semi-urban regions through digital banking initiatives. For instance, with internet access and mobile penetration increasing, even customers in remote areas can now open accounts, transfer funds, and apply for loans with minimal hurdles. This accessibility has bridged the gap for Kerala's rural population, encouraging a shift from informal lending to formal banking services.

This inclusive approach has also benefited migrant workers, who contribute significantly to Kerala's economy. Many new-generation banks have designed services tailored for the migrant community, facilitating secure remittance transfers and providing tailored savings and investment products.

3. Driving Digital Transformation

New-generation banks in Kerala have championed digital transformation, which became essential after the pandemic made traditional banking methods less feasible. They have promoted online and mobile banking, digital wallets, and UPI (Unified Payments Interface), which have reshaped how people in Kerala manage their finances. These platforms have not only simplified banking but also introduced a new level of convenience, reducing the need for in-person transactions.

The digitization of banking services has also led to increased transparency and efficiency. For example, customers now have greater visibility into their transactions and can access real-time data on their accounts, empowering them to make informed financial decisions. Furthermore, digitalization has allowed banks to use data analytics to understand customer behavior better and offer personalized financial solutions.

4. Supporting the Growth of Start-ups and Entrepreneurship

Kerala has witnessed a burgeoning start-up ecosystem, particularly in sectors such as technology, health care, and green energy. New-generation banks have played a supportive role in this growth by offering innovative financing options tailored for start-ups and young entrepreneurs. By introducing products like unsecured loans, venture debt, and working capital financing, these banks have reduced the dependency on traditional collateral-based lending. Many of these banks have also partnered with venture capital firms and government initiatives to create funding avenues, mentorship programs, and networking opportunities for entrepreneurs in Kerala.

5. Adapting to Changing Consumer Needs

The pandemic has altered consumer expectations, pushing

banks to provide more personalized and responsive services. New-generation banks have quickly adapted, focusing on customer satisfaction through digital and mobile-friendly solutions. Many banks now offer personalized financial advice, chat-based customer service, and customized loan products. Their agile business models have allowed them to pivot in response to changing market demands more effectively than traditional banks, which has won them the loyalty of a new demographic of customers in Kerala.

6. Enhancing Resilience to Future Shocks

Finally, new-generation banks in Kerala are helping to build a more resilient economy. By adopting advanced technologies like AI and machine learning, they have streamlined risk management and fraud detection processes, ensuring greater financial security. Additionally, many of these banks are now focusing on sustainable finance, funding projects that promote green energy and environmentally friendly practices, aligning with Kerala's commitment to sustainable development.

Objectives

This article aims to achieve the following objectives:

1. **Examine the Role of New-Generation Banks in Economic Recovery**
To assess how new-generation banks have contributed to Kerala's economic recovery by providing critical financial support to individuals and businesses affected by the pandemic.
2. **Analyze Financial Inclusion Efforts**
To explore how these banks have expanded financial access, especially in rural and underserved areas, thereby bridging the gap in formal financial services in Kerala.
3. **Evaluate Digital Transformation Initiatives**
To analyze the impact of digital banking services, including online banking, UPI, and mobile banking, introduced by new-generation banks and their effect on consumer behavior and economic resilience.
4. **Assess Support for SMEs and Start-Ups**
To evaluate how these banks have supported Kerala's small businesses and start-ups through innovative loan products, reduced collateral requirements, and specialized financial solutions.
5. **Understand Consumer Adaptation and Personalized Services**
To examine how new-generation banks have adapted to shifting consumer needs, particularly in terms of offering customized services and personalized financial products post-COVID-19.
6. **Explore Contributions to Sustainable Finance**
To explore how these banks are promoting sustainable finance in Kerala by funding environmentally friendly projects and adopting advanced risk management techniques to build resilience to future economic shocks.

Results

Based on the set objectives, the following results highlight the significant impact of new-generation banks on Kerala's post-pandemic economic landscape:

1. **Role of New-Generation Banks in Economic Recovery**
New-generation banks have played a pivotal role in Kerala's economic recovery by extending financial support to struggling sectors, especially the MSME (Micro, Small, and Medium Enterprises) sector. Flexible loan policies, rapid processing times, and lower interest rates have enabled these businesses to survive and grow amidst uncertain economic conditions. The banks have contributed significantly to economic revitalization by infusing capital and creating tailored financial products, thereby aiding Kerala's overall recovery trajectory.
2. **Financial Inclusion Efforts in Rural and Underserved Areas**
The outreach of new-generation banks has successfully improved financial inclusion across Kerala, especially in rural and semi-urban regions. By leveraging digital banking channels, these banks have simplified account opening, fund transfers, and loan application processes, allowing underserved populations easier access to formal banking. Consequently, these efforts have facilitated a shift from informal lending practices to reliable, secure banking services in previously underserved regions, supporting Kerala's broader socio-economic growth and stability.
3. **Impact of Digital Transformation Initiatives**
Digital banking initiatives by new-generation banks have led to widespread digital adoption in Kerala, transforming consumer banking habits. By introducing platforms such as mobile banking apps, UPI payments, and digital wallets, these banks have streamlined transactions and improved service accessibility. This shift has led to increased transparency, efficiency, and security, with customers gaining real-time access to their financial data. The success of these digital transformations has reinforced Kerala's resilience by ensuring uninterrupted access to financial services during pandemic-induced restrictions.
4. **Support for SMEs and Start-Ups**
New-generation banks have actively contributed to the growth of Kerala's SME and start-up ecosystem. By offering innovative financial products like unsecured loans, venture debt, and working capital financing, they have reduced dependency on collateral-heavy traditional lending. This financial support has enabled small businesses and start-ups to stabilize and expand. Additionally, the banks' partnerships with venture capital firms and government programs have created a supportive network for entrepreneurship in Kerala, further fostering a vibrant business ecosystem.
5. **Adaptation to Consumer Needs and Personalized Services**
Post-pandemic, consumer expectations have shifted towards convenience and personalized services. New-generation banks have responded by adopting customer-

centric approaches, offering services like real-time chat support, AI-based financial advice, and customized financial products. These banks have seen success by focusing on customer satisfaction and developing innovative solutions that cater to specific consumer needs. This adaptability has improved customer loyalty and retention rates, establishing new-generation banks as trusted financial partners for a diverse range of consumers in Kerala.

6. Promotion of Sustainable Finance

In alignment with Kerala's commitment to sustainable development, new-generation banks have increasingly directed funds toward green energy, sustainable agriculture, and other environmentally responsible projects. By investing in sustainability, these banks have contributed to Kerala's resilience against future economic shocks. Moreover, their adoption of advanced risk management techniques, supported by AI and data analytics, has enhanced their capacity to manage financial stability effectively while addressing long-term sustainability goals.

SUMMARY OF RESULTS

The objectives set out in this article reveal that new-generation banks have not only provided immediate financial relief post-COVID-19 but have also implemented structural changes that support a more inclusive, resilient, and sustainable economy in Kerala. Through digitalization, support for SMEs, commitment to financial inclusion, and sustainable financing initiatives, these banks are redefining Kerala's banking landscape, creating long-term positive impacts for the state's economic future. The literature suggests that new-generation banks are positioned to play a transformative role in post-pandemic economic recovery. Through digital banking, financial inclusion, SME support, and sustainable finance, these banks have developed models well-suited to meet modern consumer demands and economic challenges. However, while there is evidence of success in digitalization and service innovation, the long-term impact of these banks on overall economic resilience and stability remains an area for further research. In the context of Kerala, the role of new-generation banks aligns with the state's unique economic and socio-cultural environment, making them essential contributors to the post-COVID-19 recovery journey. This study builds on existing literature by specifically focusing on how these banks have contributed to Kerala's economic revival and what their impact could mean for the state's future.

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